IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B, as amended (the “Act”);

AND IN THE MATTER OF an Application by North Bay Hydro Distribution Limited under Section 78 of the Act for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2021.

Response to Argument-in- Chief

by D. D. Rennick

Adjustments to Formulaic Approach

The suggestion that the revenue requirement from previous years should be adjusted before comparison to this year’s request is, for the most part, invalid. This would be similar to a company increasing their prices by 10% and attempting to support it by saying it’s only a 5% increase because prices should have been increased by 5% a year ago.

If an adjustment of 2015 revenue requirements was allowed, one would then be left to defend the recalculated increase over the 2010 revenue requirement. According to my calculations the increase from 2010 to the adjusted 2015 revenue requirement would amount to 36.9%

The only item on the list of adjustments that could legitimately qualify for this treatment is the change in OM&A/Capital wage ratios. The amount of this adjustment is negligible to the issue of the percentage increase in revenue requirement.

Return on Equity

The calculated return on equity amount does not guarantee that a particular amount will be realized. The return amount added to rates is a calculation using the current return equity percentages but is not a promise.

The Applicant is free to allocate the funds provided as it sees fit with little if any outside influence. The suggestion that failure to meet the deemed return of equity factor would "prompt concerns about the financial viability" of the utility is unfounded. The excess in funds made available to NBHDL over the past five years is shown in the table below.

	Net and Comprehensive Income for the Year as per F/S
2015	$ 2,570,989
2016	$ 3,841,354
2017	$ 3,095,999
2018	$ 3,042,503
2019	$ 2,132,507
	$ 14,683,352

"...the intention of NBHDL is to bring the company back to a good place and a starting point that works"

The suggestion by the Applicant that NBHDL is a lean organization is without basis in fact. Staffing numbers have increased from 35 in 2004[1] to 49 in 2020 [2] while operations have experienced virtually no increase in customer numbers as well as a reduction in electricity delivered. The idea that employee burnout is an issue has not been proven. The statement that "management employees were working 60 to 70 hours per week" [3] is anecdotal not evidence of a lean staff or employee burnout. The additional customer needs and preferences that cannot be addressed without additional staff have not been itemized. The references in the *Handbook for Utility Rate Applications* to customer

[1] **Exhibit K1.8_DDR - Page 3**
[2] **EB - 2020-0043 – Exhibit 4 – Operating Expenses – Table 4-13 – Page 43**
[3] **Oral Hearing Transcript – Page 12 – Line 20**

needs and expectations [4] are almost exclusively related to affordable rates, value for money and total bill impact not increasing customer needs.

Benchmarking with similar LDC's

The use of benchmarking among other LDC's is an effective tool to compare service quality issues and other performance matters which are unique to the industry. Issues of performance are measured by their proximity to perfection or 100%. Individual results can be compared to other LDC's and as long as certain standards are maintained results are generally acceptable.

The issue of operating costs is not unique to the electricity industry and comparisons should be made to organizations that are exposed to the realities of the market place. Every organization has administrative personnel be it a designated Manger, COO or CAO. Every organization has an accounting department and customer service department of some type. Every organization has IT personnel either on staff or on call. External comparators should be used to validate the reasonableness of administrative costs

In the case of staffing costs the benchmarking criteria used here are the results of surveys of staffing and compensation levels of other participants who are operating in the same bubble as the Applicant and are also unaffected by the challenges in the real world of business. This necessarily results in a "me too" situation where group numbers are free to rise independent of outside competitive influences.

The following table is taken from Statistics Canada 2020 annual wage survey showing average hourly wage rates by industry. It illustrates the anomalies that can occur when compensation packages are not limited by the pressures of the open market. This table shows the gaps between wage levels in the Utility industry which includes NBHDL and others. The Utilities average is a full 150% of the total employees, all industries figure.

[4] **Exhibit K1.9_DDR – References Tab**

North American Industry Classification System (NAICS)4	2016	2017	2018	2019	2020
	Current dollars				
Total employees, all industries	$ 25.68	$ 26.08	$ 26.82	$ 27.75	$ 29.51
Goods-producing sector	$ 27.54	$ 27.91	$ 28.64	$ 29.80	$ 30.87
Agriculture	$ 17.46	$ 18.07	$ 19.51	$ 19.67	$ 20.29
Forestry, fishing, mining, quarrying, oil and gas	$ 36.75	$ 37.71	$ 38.25	$ 39.33	$ 40.61
Utilities (22)	$ 37.49	$ 39.85	$ 40.93	$ 42.79	$ 44.49
Construction	$ 28.42	$ 28.66	$ 28.92	$ 30.34	$ 31.15
Manufacturing	$ 25.28	$ 25.46	$ 26.31	$ 27.49	$ 28.69
Services-producing sector	$ 25.20	$ 25.61	$ 26.34	$ 27.22	$ 29.16
Wholesale and retail trade	$ 19.58	$ 20.10	$ 20.68	$ 21.27	$ 22.42
Transportation and warehousing	$ 25.25	$ 25.80	$ 26.53	$ 27.06	$ 28.07
Finance, insurance, real estate, rental and leasing	$ 29.57	$ 29.93	$ 31.02	$ 32.16	$ 34.40
Professional, scientific and technical services	$ 32.98	$ 32.84	$ 33.42	$ 34.96	$ 36.99
Business, building and other support services	$ 18.93	$ 19.45	$ 20.86	$ 21.50	$ 22.70
Educational services	$ 32.59	$ 32.70	$ 33.30	$ 34.21	$ 35.87
Health care and social assistance	$ 26.55	$ 27.14	$ 27.47	$ 27.88	$ 29.17
Information, culture and recreation	$ 24.06	$ 24.13	$ 24.70	$ 25.75	$ 29.36
Accommodation and food services	$ 14.32	$ 14.97	$ 15.82	$ 16.49	$ 17.07
Other services (except public administration)	$ 22.13	$ 22.35	$ 23.37	$ 23.82	$ 26.21
Public administration	$ 34.75	$ 35.21	$ 36.33	$ 37.48	$ 39.19

22 - Utilities

This sector comprises establishments primarily engaged in operating electric, gas and water utilities. These establishments generate, transmit, control and distribute electric power; distribute natural gas; treat and distribute water; operate sewer systems and sewage treatment facilities; and provide related services, generally through a permanent infrastructure of lines, pipes and treatment and processing facilities.

Link to Table: https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410006401

Summary

Compensation increases, vegetation management costs and corporate procedural reviews are all major factors in the requested revenue requirement increase.

Increased staffing levels which the Applicant suggests are required to "meet the increasing needs and expectations of all its stakeholders: customers, the shareholder, and the regulator" [5]

Increased average management compensation costs which have risen by 20.1% [6] since 2015 apparently supported by a "compensation management system which is managed by external expertise" [7]

Vegetation management costs resulting in increases for each of the next five years which amount to a 38% increase above the average for the previous five years.

Corporate policies and procedure reviews amounting to $750,000 over the next five years based on "corporate initiatives, health and safety, and departmental process and procedure reviews required to effectively and efficiently run the day-to-day operations of the business." [8]

Staffing levels

[5] **EB-2020-0043 – Operating Expenses - Exhibit 4 – Page 4 – Line 21**
[6] **Exhibit K1.9_DDR – OM&A, RR and Wages tab**
[7] **EB-2020-0043 – Operating Expenses - Exhibit 4 – Page 12 – Line 12**
[8] **EB-2020-0043 – Operating Expenses - Exhibit 4 – Page 13 – Line 13**

The 2004 report [9] noted that the staff compliment amounted to 35 employees and 23,000 customers. The current request is for 53 employees with a customer count of 24,271. The response to the interrogatory 1-DDR-5 and Mr. Payne's comments in the oral hearing [10] suggest that the 2004 period is not relevant since it was a period of upheaval and that Mr Ross was "....brought in to bust up the company" and that "This utility was gutted and was headed for a very, very, very bad outcome, and the shareholder stepped in and corrected that." Mr. Payne's inferences aside the interpretation of the facts is quite different.

Mr. Ross was hired to fill a vacancy left by the former general manager not to "bust up the company" as Mr. Payne so eloquently puts it.

The 2002 strike was brought on by, among other things, the reluctance of the employees to give up the pensions and benefits for life provisions of the employment contract. A comment by the Board chairman that the strike had alerted management to how long it actually took to change the bulb in a streetlight highlighted the suspected excesses in staff levels. The strike was marked by union members picketing council and board members at their places of business which ultimately caused the shareholder to settle without making much headway in concessions from the union.

The following years saw the needed reduction in the work force as outlined in the 2004 report which did not affect service to customers and customers were happy with the way the company was going according to the report.

The takeover of the board by the Shareholder who then fired Mr Ross and resulted in the resignation of the entire board was a politically based decision not a decision of the Hydro board or a reflection on Mr. Ross's capabilities. My understanding is the Mr. Ross brought legal action against the company over his dismissal.

During the period prior to the strike, during the strike and following the strike, I was a customer of NBHDL and did not experience any difference in the amount of, quality of or reliability of the product or service received and I would suggest this was the case with most customers.

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[9] **Exhibit K1.8_DDR - Page 3**

[10] **Oral Hearing Transcript – Page 188 – Line 18 to Page 189 – Line 15**

Mr. Wilcox, who replaced Mr Ross, came from a background of employment with Hydro One and Toronto Hydro and an environment where comparatively speaking the 24,000 customers served by NBHDL would simply be a rounding error. This fact, in my opinion, informed the path that NBHDL was put on and continues to this day under Mr. Payne.

The suggestion that NBHDL has been operating with a lean workforce is not supported by the facts. The comments in previous applications [11] would indicate that staffing levels are sufficient to handle the workload. Since 2014 NBHDL has elected to take on the building and maintenance of a co-generation plant at the North Bay Regional Hospital site, establishment of a community energy park and the purchase of Espanola Hydro. This would suggest that NBHDL is searching for activities to beyond the necessary rather than operating with a minimum of staff

The staffing levels of 2004 should provide a base line for all future levels unless there can be a direct line drawn between "specific outcomes valued by customers" as required by the Board in the *Handbook for Utility Rate Applications*

Increased average management compensation costs

The application does not provide evidence to support the increase in average compensation since 2015 in any meaningful way.   In Exhibit 1 on page 64 the comment "Non-union wage increase considered similarly to the union wage increases." ignores the fact that management wage costs have increased by over twice the rate [12] of those of the unionized employees.

In Exhibit 4 – Page 41 the evidence states: "An external consultant assigns pay rates to each of the grades based on their experience and compensation from similar sized businesses in the LDC sector" This is benchmarking between LDC's which has been shown above to ignore the external influences present in the real world and only serves to elevate salaries to levels that have no demonstrated relationship to customer value. To suggest that customers are well served by a compliment of thirteen management

[11] **Exhibit K1.7_DDR Settlement– Lean Organization**
[12] **Exhibit K1.9_DDR – OM&A, RR and Wages tab**

personnel with an average compensation package of $160 thousand has no basis in reality.

Increased vegetation management costs

The formation of an incorporated company by the Applicant which appears to be outside the control of the Board raises some concerns. The conflict of interest between vegetation costs charged to consumers and the interests of the LDC companies who are shareholders is an issue that that should concern the Board

The fact that the revenue requirement for this program is a large increase over the previous years is averages is concerning. The fact that NBHDL has not been able to complete its intended vegetation program appears to be related to other issues [13] not a lack of funds.

Corporate policies and procedure reviews

The suggestion that a company in the real world would allocate this amount of funds to reword policies which will simply replace those current policies that have been gathering dust on the virtual shelves of the organization is unsupportable.

The application contains no evidence that this activity will benefit consumers in any way let alone to the tune of $750.000 requested over five years.

General

NBHDL's reason for existence is simply to deliver electricity from point A to point B. The attempt by the Applicant to embellish this requirement to the level of curing cancer or solving the problem of world hunger is self serving. The custom of the previous COO to take every opportunity to describe NBHDL as an organization "punching above its weight" is evidence of the "empire building" mindset that has prevailed here for the past decade.

[13] **EB-2020-0043 – Operating Expenses - Exhibit 4 – Page 31 – Line 4**

The suggestion that it is “an important responsibility to elevate ....brand recognition” [14] is an activity that provides no benefit to customers of a monopoly. In this application the Applicant has placed exaggerated importance on survey results from a handful of participants.

I would suggest that the Applicant has failed to support this increased revenue request with any hard evidence. The purpose of this lengthy and verbose application seems to be to convince the Board that NBHDL customers require a Rolex when all their needs would be satisfied with a Timex.

I would propose that the Board peruse the 2004 report with a view to the staffing levels actually required to operate and the operating efficiencies planned by the utility at that time.

I would ask the Board to consider the effect of the requested revenue requirement on current and future customers and take steps to reduce the revenue request to a least 2015 levels. I would be happy to provide a list of expenditures which are out of line and/or provide no benefit to the customers and beneficial owners of NBHDL.

All of which is respectfully submitted

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[14] **EB-2020-0043 – Operating Expenses - Exhibit 4 – Page 9 – Line 29**